

MINUTES  
MEETING OF THE  
ILLINOIS STATE BOARD OF INVESTMENT  
FRIDAY, JUNE 24, 2011 – 9:15 A.M.

Present:        Board Members

Roderick Bashir  
Devon Bruce  
Michele Bush  
James Clayborne  
Thomas Hoffman  
Fred Montgomery  
Dan Rutherford  
Judy Baar Topinka

Staff

William Atwood  
Johara El-Harazin  
Timothy Kominiarek  
Adanna Ene  
Scott Richards  
Linsey Schoemehl  
Lorna Scott  
Katherine Spinato  
Alise White

Guests

State Retirement Systems  
    Tim Blair (via telephone)  
Office of the State Treasurer  
    Rhonda Poeschel  
Office of the Comptroller  
    Alexis Sturm, via telephone  
Marquette Associates  
    Brian Wrubel, Nichole Roman-Bhatty  
    Elizabeth Francis, Greg Leonberger,  
    Nat Kellogg  
Service Employees International Union  
    Edgar Hernandez  
Loop Capital  
    Edward Rozell  
Pensions & Investments  
    Barry Burr

Absent:        Board Members

John Casey

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## *ROLL CALL*

Vice Chairman Montgomery called the meeting to order at 9:15 a.m. The Secretary called the roll and noted that a quorum was present.

## *COMMUNICATIONS*

Director Atwood reported that Chairman Casey was recovering well and sent his thanks to everyone for the well wishes.

## *REPORT OF THE CHAIRMAN*

None.

## *MINUTES OF PREVIOUS MEETING*

Ms. Bush moved to approve the minutes of the Board meeting held March 18, 2011, in the form previously submitted. Mr. Bashir seconded and the motion passed unanimously.

## *REPORT OF STANDING COMMITTEES*

### Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- The minutes of the Audit and Compliance Committee meeting held March 18, 2011 were approved.
- Ms. White reported that the FY 2011 audit would be performed by McGladrey and Pullen and work would begin the week of June 6, 2011.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Transactions Report through March 2011.
- The Commission Recapture Report for the quarter ending March 2011 was reviewed and approved.
- The Records of Vouchers for the months of January, February and March 2011 were reviewed and approved.
- The Committee reviewed and accepted the report on placement agent contacts for FY 2011 4th Quarter.
- Ms. Schoemehl requested appointed Board Members to submit quarterly timesheets.

Judge Hoffman moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Comptroller Topinka seconded and the motion passed unanimously.

#### Emerging Manager Committee

Director Atwood stated that the Emerging Manager Committee had met June 23, 2011 and reported the following actions and recommendations by the Emerging Manager Committee:

- The minutes of the Emerging Manager Committee meeting held January 26, 2011 were reviewed.
- Revisions to the asset allocation model were discussed, including conducting a search in the small cap strategy. (Official minutes contain attachment.)
- Discussion was held regarding an amendment to the benchmark for Herndon Capital Management from the Russell 1000 Value Index to the Russell 1000 Index. (Official minutes contain attachment.)
- Ms. El-Harazin reviewed the minority certification status of investment managers.

Following review of the Emerging Manager Committee June 23, 2011 agenda items, Mr. Bashir moved to approve as outlined. Mr. Bruce seconded and the motion passed unanimously.

#### Investment Policy Committee

Director Atwood reported that the Investment Policy Committee meeting of June 23, 2011 had been cancelled.

### ***DEFERRED COMPENSATION***

#### Participant Hardship Appeal Request

Ms. Schoemehl distributed a memorandum "Beverly Gordon Hardship Appeal" dated April 28, 2011 and updated the Board Members on the status of a previously reviewed Hardship Appeal. (Official minutes contain attachment.)

Vice Chairman Montgomery stated that a Hardship Appeal request had been received and a copy of the hearing officer's recommendation was previously distributed. (Official minutes contain attachment.)

Following review and discussion, Judge Hoffman moved to deny the hardship appeal request of Laima Jurkunas (H/S11-054) and uphold the decision of the Hardship Committee. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Report of Consultant – Investment Manager Performance Review

Ms. Roman-Bhatty of Marquette Associates referred the Board Members to the "Illinois State Board of Investment Deferred Compensation Executive Summary" for the 1<sup>st</sup> quarter March 31, 2011 and an updated report dated May 2011, and reviewed. (Official minutes contain attachment.)

Further, Mr. Wrubel reported that Ariel would remain on the Alert Status list, Invesco was placed on the Alert Status list and Columbia Acorn was being removed from the Alert Status list.

#### Review and Recommendation for Custodian

Ms. Roman-Bhatty distributed copies of a report "State of Illinois Deferred Compensation Plan Custody Search" and reviewed, stating that Marquette Associates and Staff were recommending the retention of The Northern Trust Company to provide custodial services to the State Employees' Deferred Compensation Plan. (Official minutes contain attachment.)

Ms. Schoemehl disclosed ownership and political contributions made by The Northern Trust Company as follows:

Political contributions between 2005 and 2011:

- Northern Trust gave \$2,000 to the campaign of Senator James Clayborne.
- Northern Trust gave \$7,000 to the campaign of Comptroller Judy Baar Topinka.
- John Rowe, Chairman and CEO of Northern Trust gave \$8,000 to Citizens for Judy Baar Topinka.
- Robert McCormack, Managing Director of Northern Trust, gave \$5,000 to Citizens for Judy Baar Topinka.
- William Smithburg, Retired Director of Northern Trust, gave \$3,000 to Citizens for Judy Baar Topinka.
- Paul L. Williams, Lobbyist for Northern Trust, gave \$250 to Friends of James F. Clayborne, Jr.

Following review, Judge Hoffman moved to retain The Northern Trust Company to provide custodial services for the Illinois State Employees' Deferred Compensation Plan. Mr. Bashir seconded and the motion passed unanimously.

#### Update on Loan Policy and Roth IRA Status

Ms. Schoemehl stated that ISBI staff was in contact with the Comptroller's office and was progressing with the other agencies involved relating to the changes that are necessary to agencies' respective payroll systems in order to implement the Loan Program and, eventually allow for Roth IRAs.

### ***REPORT OF CONSULTANT – MARQUETTE ASSOCIATES***

#### Asset Allocation Review

Mr. Wrubel distributed a memorandum "Fund Asset Allocation and Implementation Plan" dated May 16, 2011. Following detailed review and discussion, Mr. Wrubel outlined the recommended asset allocation and implementation as follows:

U. S. Equity	30%
Hedge Funds	10%
Non-U.S. Equity	20%
Real Estate	10%
Private Equity	05%
Infrastructure	05%

#### U. S. Equity

- Terminate Profit and transition assets to the RhumbLine large-cap core index.
- Transition the RhumbLine large-cap growth index account to mid-cap growth index in September 2011.
- Conduct a search in the mid-cap growth index asset class, with selection made at the September 2011 meeting.
- Conduct a search in the small-cap core index asset class, with selection made at the September 2011 meeting.
- Amend the benchmark for Herndon from the Russell 1000 Value Index to the Russell 1000 Index.

#### Non-U. S. Equity

- Conduct a search in the non-U.S. equity asset class and amend the benchmark from MSCI EAFE Index to the MSCA ACWI ex-U.S. IMI Index, effective July 1, 2011.

#### Real Estate

- Conduct a search for a \$150 million core real estate commingled fund; \$100 million to a non-core real estate open-ended fund; lowering the hurdle rate for the Clarion to 7.5%, net of fees.
- Amend the benchmark from the NCREIF Index to the NCREIF Fund Index-Open End Diversified Core Equity (NFI-ODCE, net).

Following detailed review and discussion, Mr. Bashir moved to accept and approve the recommendations of Marquette Associates, as outlined in the memorandum. Mr. Bruce seconded and the motion passed unanimously. (Official minutes contain attachments.)

#### Investment Performance Report – March 2011 and May 2011 Interim Report

Mr. Wrubel reported that the Investment Performance Report for the quarter ending March 2011 had previously been distributed. Mr. Wrubel distributed the Flash Report for May 2011. (Official minutes contain attachment.)

### ***REPORT OF THE DIRECTOR***

Vice Chairman Montgomery stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)), current Board litigation (5 ILCS 120/2(c)(11)), and compensation of specific Board employees (5 ILCS 120/2(c)(1)). Judge Hoffman moved to go into Executive Session for the above-stated purposes. Mr. Bruce seconded and the motion passed unanimously.

Guest and Staff were excused from the meeting with the exception of Director Atwood, Ms. Schoemehl, Ms. Spinato, Mr. Richards and Mr. Kominiarek.

Ms. Bush moved to return to the open meeting. Judge Hoffman seconded and the motion passed unanimously.

#### Watch List

*Adoption of Amended Watch List Policy* – Director Atwood referred the Board Members to a memorandum “Watch List Policy Revision” dated June 14, 2011 that had been previously distributed. Following review, Ms. Bush moved to approve the revised Watch List Policy, as outlined in the memorandum. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

*Current Watch List* – Mr. Richards reviewed the “Watch List” that was previously distributed, stating that J for Jobs, Amalgamated Bank Construction Loan Fund, IronBridge and Profit remained on the list and were both previously discussed. (Official minutes contain attachment.)

#### Matters Relating to Existing Managers

Director Atwood referred the members to the memorandum “Matters Relating to existing managers” dated June 8, 2011. (Official minutes contain attachment.)

#### FX Trading Review

Director Atwood called on Ms. Scott to review the memorandum “Foreign Exchange review” dated June 10, 2011. (Official minutes contain attachment.)

#### Recommendation of Tax Consultant

Mr. Wrubel referred the Board Members to his memorandum “Foreign Tax Consultant” dated May 9, 2011 and reviewed stating that Marquette Associates was recommending engaging Deloitte for tax consulting services in India and Taiwan for stock market issues in those countries. Ms. Schoemehl reported that there were no political contribution or ownership disclosures. Following review, Ms. Bush moved to approve the retention of Deloitte to provide foreign tax consulting services to ISBI. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Minority Brokerage Usage Report

Ms. El-Harazin stated that the “Minority Brokerage Usage Report” for the period ended March 31, 2011 had previously been distributed and reviewed. (Official minutes contain attachment.)

#### Review of Securities Lending Program

Ms. El-Harazin reviewed her memorandum “Securities Lending Reporting – March 31, 2011” dated June 24, 2011. (Official minutes contain attachment.)

#### Financial Statements

Ms. White stated that the Financial Statements for the quarters ending December 31, 2010 and March 31, 2011 had previously been distributed. Following review, Ms. Bush moved to approve the Financial Statements for the quarters ending December 31, 2010 and March 31, 2011, as submitted. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachments.)

#### Proposed FY2012 Budget

Director Atwood referred the Members to the Proposed Budget for Fiscal Year 2012 which was previously submitted, stating that the budget included salary increases for all non-code staff as previously discussed. Following review, Judge Hoffman moved to approve the FY 2012 Budget as proposed and annual salary increases of 2.7% for non-code staff and an annual salary increase of 5.3% for Ms. White. (Official minutes contain attachment.)

#### Employee Directive Manual

Ms. Spinato referred the Board Members to the Employee Directives Manual, which was previously distributed and reviewed the revisions. Following review, Mr. Bashir moved to approve the revisions to the Employee Directives Manual, as outlined. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Disaster Recovery Policy

Ms. White referred the Members to the Illinois State Board of Investment Disaster Recovery Plan, which was previously distributed, and reviewed the revisions. Following review, Judge Hoffman moved to approve the Disaster Recovery Plan as revised. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Budget Comparison

Ms. White stated that the preliminary Budget Comparisons for the quarter ending March 31, 2011 had previously been submitted. Following review, there being no questions or comments, the Budget Comparison for March 2011 was ordered filed. (Official minutes contain attachment.)

#### Network Infrastructure and Support Services Provider

Ms. White reported that two responses were received to the RFP for an IT consultant and that she was recommending En-terpret Co. Ms. Schoemehl reported that there were no political contributions and disclosed that the firm was owned 51% by Daniel Harris and 49% by Dennis Sohn. Following discussion, Ms. Bush moved to approve the engagement of En-terpret Co. to provide IT consulting to ISBI. Mr. Bruce seconded and the motion passed unanimously.

#### Legislative Update

Director Atwood directed the Board Members to the memorandum "Legislative Update" dated June 14, 2011. Ms. Schoemehl reported on the status of SB 512, SB 1672 and Public Act 96-0874.

Following review, Mr. Bruce moved to adopt the Identification Protection Policy as proposed by Staff and previously distributed. Senator Clayborne seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### ***REPORT OF ANY BOARD MEMBER***

None.

*UNFINISHED BUSINESS*

None.

*NEW BUSINESS*

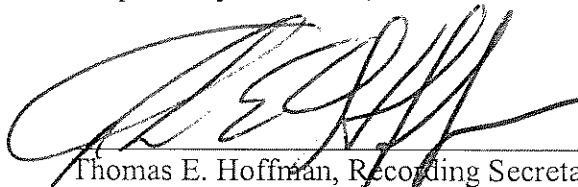
None.

*NEXT MEETING AND ADJOURNMENT*

Vice Chairman Montgomery stated that the next meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, September 23, 2011 at 9:00 a.m. and 9:15 a.m., respectively.

At 12:15 p.m., there being no further business to come before the Board, Mr. Bashir moved to adjourn. Mr. Bruce seconded and the meeting was adjourned.

Respectfully submitted,



Thomas E. Hoffman, Recording Secretary  
Illinois State Board of Investment



Fred Montgomery, Vice Chairman  
Illinois State Board of Investment